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**REPORT ON MUNICIPAL
TAXES, FEES, AND CHARGES
IN MONTENEGRO**

Prepared for



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REPORT ON MUNICIPAL TAXES, FEES, AND CHARGES IN MONTENEGRO¹

Introduction

During the last year or two, some Montenegrin businesses – particularly the recently privatized Telekom, have complained about what they say is an increasing tendency of municipalities to levy unreasonably high local communal fees on their property and operations and about what they say is an unfair and arbitrary system of enforcing payment of these fees.

Other businesses, represented by the Montenegro Business Alliance, have complained about what they say is an increasing trend of proliferation of municipal taxes, fees and charges that are having an adverse economic effect on business and creating unreasonable administrative burdens on business to cope with duplicative taxes, fees and charges within a single municipality.

Based on these complaints, the GLG project collected and analyzed data regarding the recent trends in municipal taxes, fees, and charges. This report presents the result of that analysis and some proposed principles that the Government of Montenegro and municipalities may wish to consider regarding reform of the system of municipal taxes, fees and charges.

Summary

Based on the GLG project's review of the existing scheme of municipal fees, taxes, and charges described in Sections 1.1 – 1.4, below, the weaknesses of the existing scheme of municipal own-source taxes, fees, and charges can be summarized as follows:

- ***Proliferation and duplication among municipal taxes, fees, and charges***

Municipal tax- and fee-payers are being asked to pay numerous taxes, administrative fees, and local communal fees that are based on the same tax base – in particular, the right to use municipal property or the right to operate a particular type of business. This duplication creates an excessive administrative burden for both municipalities and tax- and fee-payers, discourages the economic activities that are subjected to these duplicative taxes, fees, and charges and leads to very low collection rates and high costs of collection.

- ***Rapid growth of some local communal fees***

Municipal communal fees levied on some businesses – particularly on Telekom and, reportedly, other utilities – have grown much more rapidly than other municipal taxes, fees, and charges in the last two years. Some of the businesses that are subject to these rapidly-growing municipal fees claim that they are becoming an intolerable economic burden. Others claim that these rapidly-growing municipal fees discourage the formation of new businesses or the expansion of existing businesses. Based on the data available to the

¹ The authors wish to thank Biljana Vujošević, former GLG project Senior Municipal Revenue Advisor; Dragan Radanović, former GLG project Senior Municipal Finance Policy Advisor; Vladislav Karadžić, former GLG project Intergovernmental Finance Advisor; and Alan Ferguson, former GLG project Integrated Municipal Finance Team Leader of the GLG project, for their work in collecting and analyzing some of the information presented in this report.

GLG project, the validity of these claims is not clear. However, the rapid growth in some municipal fees is, at least, a symptom of poor collection rates for other municipal taxes, fees, and charges; municipalities are focusing on relatively easy ways of increasing their revenues from sources other than local businesses and households, rather than on taking actions that will improve the collection of other own-source revenues.

- ***Failure to implement some existing municipal own-source revenues***

A number of own-source revenues assigned to municipalities are not being implemented and their potential revenues are not being collected. Some of these municipal own-source revenues are not being implemented because their potential revenue may not justify the cost of collection. Current inefficient municipal own-source revenue administration may account for some of the relatively high cost of collecting some own-source revenues not currently being implemented. In some cases, municipalities claim the Government has failed to take actions required to implement such municipal own-source revenues, including issuance of implementing regulations and guidelines. In other cases, unilateral actions by the Government have removed portions of the municipal own-source revenue base. Efforts by the Government to reduce the burden of municipal communal fees on businesses perceived as “over-burdened” by those fees are not being accompanied by Government actions required to enable municipalities to implement or improve the collection rate of other municipal revenue sources in order to make up for municipal revenues lost as a result of Government action.

- ***Inefficient municipal administration and enforcement of own-source revenues***

Municipal taxes, fees, and charges are administered by several different municipal departments or agencies. Many such taxes, fees, and charges produce very small revenues in proportion to the cost of administration. This creates unnecessary duplication of administrative effort and expense for the municipality and high compliance costs for tax- and fee-payers, leading to low collection rates and high costs of collection. The absence of a consistent and predictable billing schedule by all municipal departments responsible for sending bills for municipal taxes, fees, and charges (or the practice of not sending any bills) creates confusion for tax- and fee-payers and lower collection rates.

The proposed principles to be followed in designing solutions to the weaknesses of the current system are described in Sections 2.2 – 2.6, below, and include the following:

- ***Municipal communal fees and taxes should be consolidated to the greatest extent possible and no communal fees should be charged for carrying on any business-related activity.***
- ***Any future policy, law or implementing regulation regarding local communal fees, local administrative fees, and municipal taxes should make clear distinctions among such revenue instruments.***
- ***There should be no duplication of municipal taxes, fees, or charges within each category of revenue instrument or among categories of revenue instrument.***
- ***Any change in the existing laws or regulations governing municipal revenue instruments should, to the greatest extent possible, be revenue-neutral for municipalities while ensuring that municipal tax-, charge-, and fee-payers are not excessively burdened financially.***

- ***The administration of municipal taxes, fees, and charges should be efficient, predictable, transparent, and fair.***

1. Discussion

1.1 Proliferation and duplication of municipal taxes, fees, and charges

Table 1 summarizes municipal own-source revenues, the fee or tax base, the list of departments which administer the tax or fee, how the municipality measures the base on which the fee or tax is calculated, and the range of rates of the tax or fee. An analysis prepared by the GLG project shows that 859 municipal taxes and fees are being imposed by the 21 municipalities in Montenegro², an average of nearly 41 taxes and fees in each municipality. These taxes and fees are often administered by different municipal departments (see Section 1.4, below), creating duplication of administrative effort and inconsistent administration, and expenditure of municipal time and effort on administration³ rather than on collection of municipal taxes and fees. It appears likely that many of these taxes and fees produce insufficient revenue to justify the cost of attempting to administer and collect them. It is also likely that, in attempting to collect many of these taxes and fees, municipalities are creating unnecessary costs on tax- and fee-payers that attempt to comply and are discouraging compliance by many other tax- and fee payers. The proliferation of these taxes and fees may also be creating unnecessary barriers to business formation and expansion.

Current law⁴ authorizes 14 different local communal fees. Of the 11 local communal fees authorized by current law that are still part of the municipal own-source revenue base⁵, ten are imposed on the conduct of various kinds of businesses: use of municipal property for business purposes; holding musical events at tourist facilities; use of a glass showcase outside business facilities for presenting goods, etc. Most of these local communal fees are

² The data on which this statement is based are contained in a table prepared by the GLG project that is too large for inclusion in this report. The table is available in electronic form from USAID/Montenegro.

³ In this context, “administration” of a municipal tax, fee, or charge refers to the activities of municipal staff in maintaining data bases related to the tax, fee or charge; preparing and adopting municipal decisions setting taxes, fees, and charges; calculating the amounts of taxes, fees, or charges for particular tax- and fee-payers; sending bills and reminder notices; identifying delinquent tax- or fee-payers; initiating and managing enforcement procedures; tracking tax, fee, and charge revenues and preparing reports, etc. “Administrative costs” refers to the cost to the municipality of these activities, including staff salaries and other compensation, expenses for materials and supplies, expenses for outside consultants and advisors, etc. “Compliance” by tax- and fee-payers refers to the work that a tax- or fee-payer must perform to pay the tax, fee, or charge, including determining the amount due and the payment deadline; making the required payment; initiating and pursuing procedures to challenge the tax- or fee-payer’s liability for the tax, fee, or charge; maintaining records related to the tax, fee, or charge, etc. “Compliance costs” refers to the total cost of compliance to the taxpayer, including staff salaries and other compensation or, in the case of a household or natural person, the value of the tax- or fee-payer’s time spent on compliance.

⁴ Law on Communal Fees and Charges (Official Gazette 55/03), Article 14.

⁵ Several of the local communal fees authorized by the Law on Communal Taxes and Fees, Article 14 are now regulated by other laws, such as the local communal fees for posting advertisements in business facilities, now regulated by the Law on Local Government Finance (Official Gazette 44/03); the local communal fee for use of the seaside for business purposes (now regulated by the Law on Morsko Dobro (Official Gazette 27/94); and the local communal fee for having motor vehicles, now regulated by the Law on Roads (Official Gazette No. 42/04). The effect of these subsequently-enacted laws has been to remove these local communal fees from the municipal own-source revenue base, forcing municipalities to find ways to replace the lost revenues. Rapidly increasing local communal fees on certain types of businesses – Telekom and others – is one such way that municipalities have replaced those lost revenues (see Section 1.2, below).

not related to concerns regarding public health or safety or activities that might create a nuisance; normally, such concerns are addressed through the issuance of administrative permits and charging administrative fees. Instead, these local communal fees often duplicate local administrative fees and create an unnecessary financial and administrative burden on both the municipality and the businesses that must pay these fees. Table 2 shows some examples of local communal fees that duplicate local administrative fees for the same activities.

The Government has proposed to eliminate the Law on Communal Fees and Charges and to replace the portion of that law that deals with local communal fees with a new Law on Local Communal Fees. The Government has submitted a draft of the proposed Law on Local Communal Fees to the Republic Parliament in January 2006, but the Republic Parliament has not yet acted on the proposal. Article 3 of the Government's proposed Law on Local Communal Fees retains almost all of the local communal fees authorized by Article 14 of the current Law on Communal Fees and Charges (except fees now regulated by other laws and the fee for "having domestic animals") and adds several other new local communal fees on the use of municipal property and on various types of business activities, including fees for the use of municipal property by "producers of old and artistic crafts or cottage industries", "owning and using frame-saws and buzz-saws for sawing timber"; "using municipal property for putting up prefabricated buildings and unloading construction materials for the purpose of carrying out construction works"; "owning and using asphalt plants and plats for crushing and producing stone and sand"; "owning and running storehouses, depots, car sales, and open-air car junkyards"; and "using open areas for go-cart racing tracks, them parks, and circuses". Article 11 of the Government's draft Law on Local Communal Fees also sets a schedule of maximum communal fees on the use of electric power transmission, telecommunications, and television and radio equipment, and for the use of the seacoast for business purposes. The draft law allows municipalities to impose the local communal fees authorized by Article 11 only temporarily, until 1 January 2008. The Government's rationale for authorizing new local communal fees on certain business activities, and the choice of the particular business activities on which these new local communal fees may be imposed, is unclear.

A case study prepared by the GLG project identified the municipal administrative fees, local communal fees, and municipal taxes and charges that would be imposed on a fairly common business activity: a restaurant and catering business that requires the construction of a new building. Table 3 lists the administrative fees, local communal fees, and municipal taxes and charges that could, under existing law, be imposed on such a business operated by a legal entity or by an individual. In summary, based on this case study the number of different municipal administrative fees, local communal fees, and municipal taxes and charges for such a business would be up to the numbers shown in the following table as follows:

	Administrative fees	Local communal fees	Municipal taxes and charges	Total
Private person	40	6	4	50
Legal entity	27	1	4	32

This summary omits the large number of documents that must be submitted to the municipality in order to receive the required approvals and permits to engage in the business. This proliferation and duplication of municipal taxes, local communal fees, and

local administrative fees creates an extremely inefficient administrative system and contributes to low collection rates. It also creates unnecessarily high compliance costs for tax- and fee-payers and low payment rates, and can discourage business formation or expansion.

1.2 Rapid growth of some municipal taxes, fees and charges

The calls by some businesses for reform of the communal fees originate, in part, from the apparent rapid growth of the fees imposed on Montenegro's telecommunications firms, particularly Telekom⁶. Table 4 presents the total taxes and fees charged to Telekom by all of Montenegro's 21 municipalities for fiscal years 2004 and 2005. Based on data collected by the GLG project in 2005, total municipal revenues from the corporate title tax, the real estate tax, and all municipal fees other than the fee for the use of municipal land reportedly⁷ rose from €68,038 in 2004 to €77,402 in 2005, an increase of 13.8%. However, municipal revenues from the fee for the use of municipal land paid by Telekom reportedly rose from €646,829 in 2004 to €2,175,887 in 2005, an increase of over 236% and a much more rapid increase than the rate of increase of other municipal revenues during the same period.

Table 5 shows the growth in the charges and taxes imposed against Telekom by municipality between 2004 and 2005. The main source of revenue growth can be found in the column labeled "Use of public land fee" otherwise known as a communal fee for the use of public land. Only six municipalities are responsible for most of the increase in total fees from €646,829 to €2,175,887. These include Budva (whose communal fees for the use of public land grew by over €500,000), Kolašin, Cetinje, Pljevlja, Rožaje, and Podgorica. Almost all of the increase came from fees imposed for the use of the municipal property by Telekom for its wires and equipment.

It is not clear to the GLG project, however, that current levels of local communal fees imposed on Telekom or other companies are "excessive". Telekom has claimed that municipal fees now represent about 4% of its gross revenues, but we have not verified that claim. We have also not examined the extent to which Telekom or other companies are able to pass these municipal fees on to their customers through tariffs and charges or, if so, whether this has resulted in higher charges to customers or is causing financial hardship for customers or for particular classes of customers (e.g., poor households, small businesses, etc.). Without considering these issues, we believe it would be difficult to say with certainty whether and to what extent the current level of local communal fees imposed on Telekom or other businesses is "excessive".

Some municipalities derive large off-budget revenues from local communal fees and other fees related to municipal property transactions. This undermines the principle of transparency of, and accountability for, municipal budgets, revenues, and expenditures. For example, the Municipality of Podgorica has established the Agency for Construction and Development of Podgorica to conduct property transactions on behalf of the municipality and to collect revenues from those transactions. The Agency's revenues include local communal fees and other fees for the use and improvement of municipal land as well as

⁶ Elektroprivreda Crne Gore, the national electricity company, has reportedly also complained about the rapidly rising burden of municipal fees on its operations, but the GLG project has not been able to verify this report.

⁷ These data were provided to the GLG project by Telekom and has not been verified with municipalities.

other revenues. A representative of the Municipality of Podgorica has informally reported to one of the authors of this report (but the GLG project has not independently confirmed) that the revenues of this Agency are significantly higher than the revenues of the municipality itself. The Agency's revenues and expenditures do not appear in the municipality's budget and are not recorded in the municipality's treasury management system. A representative of the Ministry of Finance has expressed the Ministry's dissatisfaction with this arrangement in Podgorica, since it undermines the purposes of the municipal budgeting and treasury management systems and procedures and because Podgorica's revenues and expenditures represent a very large proportion off all municipal revenues and expenditures. Other municipalities (Kotor and Bijelo Polje) have similar arrangements as the Municipality of Podgorica, but the revenues of their property agencies are reportedly much smaller than those of Podgorica's. The Municipality of Berane also has a similar arrangement, but the revenues of its property agency are reported through the municipality's treasury management system.

1.3 Failure to implement municipal taxes and fees

Many municipal taxes and local communal fees with significant revenue-raising potential have not been implemented or have only been partially implemented. For example, municipalities have implemented the tax on real estate only for improvements to land – the value of land itself is typically not taxed although municipalities are authorized to tax land as well as improvements⁸. Municipalities have reported to the GLG project that they do not try to collect the real estate tax for the value of vacant land or the value of land that has been improved because they have inadequate data bases and analytical computer software to enable them to do so. This means that part of the potential real estate tax revenue of improved land, and all of the potential revenue from the municipal tax on vacant land, is not being collected by municipalities. The local communal fee for games of chance⁹ is seldom implemented. The beverage tax¹⁰ is also not being implemented although vendors' cash registers can, according to some reports, be modified fairly easily and inexpensively in order to permit its implementation. Finally, although the tourism fee was initially designated as a municipal own-source revenue¹¹ it is now a shared revenue and is earmarked for use only by the Republic and local tourist organizations¹² and does not function as a municipal own-source revenue.

1.4 Inefficient municipal administration and enforcement

Table 1 lists the wide variety of municipal departments that administer municipal taxes and local communal fees that are all based on the ownership or use of real estate, whether owned privately or by the municipality. In most municipalities, each municipal department in charge of administering a municipal tax or local communal fee typically maintains its own register; calculates the base on which each fee or tax is calculated; issues the bill for that tax or local communal fee; and initiates enforcement measures when required. Table 6 identifies eight municipal taxes and local communal fees that are all based on the use or

⁸ Law on Real Estate Tax (Official Gazette 65/01), Article 3; Law on Construction Land (Official Gazette 55/00), Articles 17 and 29.

⁹ The local communal fee on games of chance was originally authorized by the Law on Communal Fees and Charges, Article 14 but is now regulated by the Law on Games of Chance (Official Gazette 52/04).

¹⁰ The beverage tax was authorized by the Law on Local Government Finance (Official Gazette 44/03), Article 6.

¹¹ Law on Local Government Finance (Official Gazette 44/03), Article 5.

¹² Law on Tourism Fee (Official Gazette 13/04).

ownership of real estate and that are generally separately administered by different municipal departments.

The result of this system is a large number of municipal departments administering taxes or local communal fees that are based largely on the same tax or fee base – real estate – and the creation of an unnecessarily heavy administrative burden on the municipalities and on tax- and fee-payers. This duplication of administrative effort by the municipality may contribute to the very low collection rates for municipal taxes and local communal fees – overall, only about 30% of amounts billed – because municipalities are forced to spend most of their efforts on billing rather than on collection. This collection rate is far below the potential collection rate; in neighboring Kosovo, for example (a region that is poorer and less well-developed than Montenegro), many municipalities report that they are collecting more than 60% of local taxes billed and some report collection rates of more than 90%.

Municipal administration of local communal fees and taxes is often inefficient and unpredictable. Municipalities often change the rate of many local communal fees each year and set the payment period for those fees in the decision that also sets the rate of the fee. Before the municipality adopts this decision, fee-payers therefore can not reliably predict the amount they will have to pay or when they must pay it. In addition, municipalities generally do not send bills for local communal fees but instead rely on fee-payers to pay them voluntarily, in full and on time, on the assumption that the fee-payer will be aware of the annual municipal decision setting the rate and the payment date. Municipalities generally do not track these payments to ensure that fee-payers have paid what they owe. Many fee-payers therefore have little information of the type or amount of communal fees they may be obligated to pay, and must comply with short time periods for payment without having received a bill or a reminder notice. This makes compliance difficult and reduces municipal collections of these fees. Under applicable law, non-payment of these local communal fees can also lead to an enforcement decision by the municipality and blocking the bank account or claiming the assets of the fee-payer without an order of a court. This can also be unfair to the fee-payer.

Municipalities are required to make a decision regarding real estate taxes by 31 May of each year¹³. The law also provides that payments of the real estate tax are due in two instalments, on 30 June and 30 November. However, many municipalities fail to adopt a decision on real estate tax by 31 May and sometimes fail to adopt the decision before the first payment is due on 30 June. In that case, the municipality usually does not specify a date for the first real estate payment but informally allows taxpayers a period of 30 days after adoption of the real estate tax decision to make that payment. The failure of municipalities to comply with real estate tax decision deadline set by the law and the failure of the law to state specifically what the deadline for the first payment is if the municipality misses the 31 May deadline for adopting the real estate tax decision contribute to the unpredictability of municipal tax payment schedules and to low levels of taxpayer compliance and municipal real estate tax revenue collection. They also add to municipal real estate tax administration and enforcement costs, since taxpayers may be uncertain about when the municipality adopted the real estate tax decision and when the first payment is due.

¹³ Law on Real Estate Tax, Article 13.

Under the applicable law, municipalities have the authority to block the bank account or claim other assets of a taxpayer who fails to pay the tax bill when due without an order of the court. However, the municipality first must have adopted an enforcement decision notifying the taxpayer that its bank account may be blocked or other assets seized if the taxpayer fails to pay the amount due after a short (typically ten-day) period from the issuance of the enforcement decision¹⁴. Municipalities' unpredictable tax payment schedules and the authority (and practice) of municipalities to block the bank account or claim other assets of the taxpayer without a court order to ensure payment of the tax constitute an administrative system that can be unfair to taxpayers.

According to Telekom, for example, municipalities often block the company's bank account, without an order of the court, to ensure payment of local communal fees. However, these municipalities reportedly do not pursue payment of local communal fees by other fee-payers equally aggressively. However, the GLG project is unable to say with certainty that the reported aggressive enforcement by municipalities of Telekom's obligation to pay municipal fees is "unfair" or inappropriate. The local communal fees imposed by municipalities on Telekom and other companies are currently authorized by law. Municipalities are arguably making an appropriate decision to impose relatively large fee burdens on a large company that is not "footloose"; that is, one that cannot decide to relocate its business if it finds the municipal fees too burdensome. This is an extremely common practice of local and regional governments throughout the world and, from the point of view of the municipality, both legal and rational.

The fact that municipalities may enforce the obligation to pay municipal fees against Telekom or other similar, large, non-"footloose" companies more aggressively than they do against local households or small businesses is also legal under current law and rational from the standpoint of municipalities. It makes sense for municipalities to concentrate their limited resources to enforce payment of municipal fees and taxes on those tax- and fee-payers with the largest unpaid obligations, where the enforcement effort is likely to yield a much larger reward than many costly enforcement efforts against much smaller tax- and fee-payers. This is also a common practice throughout the world. If the Government wishes, as a matter of policy, to reduce the burden on Telekom or other businesses of municipal fees and taxes that are legal when imposed, we suggest that the Government should consider whether the municipal revenues that will be lost as a result must be replaced in order to allow municipalities to fulfill their obligations to their citizens and, if so, how and to what extent those lost revenues will be replaced (see Section 2.4, below).

This unpredictable municipal administration and generally weak municipal enforcement probably results in fewer tax- and fee-payers paying their municipal taxes and local communal fees and a lower collection rate than would be the case if, for example, the municipality issued only one bill for to each tax- and fee-payer for all municipal taxes and

¹⁴ An order of the court to block a taxpayer's account to enforce payment of an unpaid municipal tax bill is required in all cases except when otherwise specified by law. Law on Executive Procedures (Official Gazette 23/04), Article 1. The Law on Tax Administration, Articles 56-65, provides that a taxpayer's account may be blocked or other assets seized without a court order in order to ensure the payment of a municipal tax, fee, or charge so long as the municipality first adopts an enforcement decision (a so-called "solution") and the taxpayer fails to pay the tax within the period set for payment in the enforcement decision. This procedure creates an exception from the general rule of the Law on Executive Procedures requiring a court order. The Law on General Administrative Procedures (Official Gazette 60/03) describes the procedures available to a taxpayer to contest the blocking of its account or seizure of its assets.

local communal fees based on the ownership or use of real estate; issued that bill on a predictable schedule; and concentrated its efforts on collecting payment of that bill.

2. Basic principles for a system of municipal taxes, fees, and charges

We recommend that the Government and municipalities consider the following basic principles when revising the current system of municipal taxes fees and in administering any such new system:

2.1 Consolidate municipal communal fees and taxes

Municipal communal fees and taxes should be consolidated to the greatest extent possible and no communal fees should be charged for carrying on any business-related activity.

This principal is intended to eliminate the proliferation of local communal fees. Many local communal fees that municipalities are currently authorized to collect are not being implemented because of the absence of implementing regulations or other technical reasons. Others are not being implemented because their potential revenues are too small to justify the cost of collection. Still others are duplicative, in that they are imposed on the same base – the use of municipal property – or are charged for carrying on activities for which an administrative fee is also charged.

Duplicative local communal fees related to the use of municipal property should, in the short term, be combined into a single local communal fee for the use of municipal property by non-municipal users.

In the longer term, local communal fees and other municipal fees related to the use or improvement of property¹⁵ should be eliminated and replaced by imposing a real estate tax on the value of the user's right to use municipal property and a personal property tax (i.e., a tax on moveable property) on the value of improvements placed on municipal property by the user.

If local communal fees and taxes are not now being implemented because of the absence of adequate implementing regulations or guidelines, those regulations and guidelines should be issued promptly, by a deadline set by the Government. In particular, implementing regulations and guidelines and administrative procedures should be promptly adopted to allow municipalities to implement the real estate tax with respect to land; the tax on agricultural land; and the beverage tax.

In addition, the Ministry of Finance should consider revising its current methodology for setting the taxable value of real estate to move toward a much more market-based valuation system. That valuation methodology¹⁶ currently specifies which municipal department (the Secretariat of Finance) is authorized to determine the taxable "market value" of real estate and gives general guidance on how the authorized municipal

¹⁵ These include the fee for using construction land; the fee for improving construction land; local communal fees for the use or improvement of municipal property; and the tax on agricultural land.

¹⁶ Ministry of Finance Decree on criteria and methodology for determination of real estate market value (Official Gazette 31/05)(the "Valuation Methodology").

department is to determine that “market value”¹⁷. The Republic Bureau of Statistics has what it calls “market value” data for real estate in only five municipalities, although it is not clear to the GLG project how the Bureau gathers or verifies that data or whether it is reliable, representative, or up-to-date. The Secretariats of Finance of the five municipalities for which the Bureau of Statistics has “market value” information rely on that information in setting the taxable values of real estate in those municipalities. Some municipalities that are located close to the five municipalities for which the Bureau of Statistics has “market value” information rely on that information in setting the taxable value of real estate in their jurisdictions, although it is not clear to the GLG project whether or how they adapt that information to local conditions. Finally, some municipalities set the taxable “market values” of real estate by gathering sales data from real estate brokers in that municipality or in neighboring municipalities, but it is not clear how systematically they collect and analyze that information or how reliable it is.

The Ministry of Finance should consider how the valuation methodology can move rapidly to a market-based system, considering the need for adequate, reliable, representative, and up-to-date data regarding the actual sale price of comparable properties in various parts of the Republic; the need for a sufficient number of properly trained real estate appraisers who can be employed by municipalities to appraise real estate for tax purposes; the need for adequate municipal administrative capacity to manage a market-based valuation system; and the need for a fair, transparent, and efficient system to allow taxpayers to contest the assessed value of their real estate.

Local communal fees in Montenegro are imposed mainly on an arbitrary set of businesses (see Section 1.1, above), are often not related to regulation or inspection of those businesses to ensure public health and safety (or duplicate municipal administrative fees that are related to these purposes), and tend to drive those businesses into the informal sector, where they can not be taxed or regulated. These local communal fees should be eliminated.

Local communal fees imposed on the use of municipal property should be eliminated, since users of municipal property are already required to pay fees to the municipality for the use or development of construction land to the municipality in amounts established by competitive public bidding¹⁸. In addition, municipalities should have the right to impose the real estate tax on the market value of the user’s interest in the municipal property and on

¹⁷ The Valuation Methodology, Articles 6 – 8, requires that the taxable “market value” of real estate be determined based on several factors including (in descending order of priority) sales prices of comparable local property according to information available from the Republic Bureau of Statistics; or, if that information is not available for a particular municipality, the value of comparable property in that municipality based on the previous year’s real estate tax valuation; prices paid for expropriated property determined in accordance with the applicable regulation on expropriation; or, if information for applying one of the three foregoing methods is not available, sales prices of comparable property in neighboring municipalities; or, if sales prices of comparable property in neighboring municipalities is not available, sales prices of comparable property in the municipality that is determining the taxable “market value”. The Valuation Methodology authorizes municipalities to apply “correcting coefficients” to the “market value” determined by any of the foregoing methods to take into account the location and quality of the property (as those terms are defined in the Valuation Methodology). The municipality is authorized to set the correcting coefficients for location and quality at its discretion.

¹⁸ The Law on Construction Land, Article 24, requires that the transfer of rights in municipal construction land be “... concluded based on public bidding or based on collection of bids by means of public advertisement ...”, subject to limited exceptions. Municipalities are usually careful to comply with this requirement, since the disposition of municipal property is often a politically sensitive issue.

the buildings or other immoveable improvements placed on the municipal property by the user. Consideration could also be given to authorizing municipalities to impose a personal property tax on the market value or depreciated cost of certain moveable improvements (e.g., electrical or telecommunications transmission lines and other equipment) placed on the municipal property by the user¹⁹.

Local communal fees related to carrying on business-related activities that affect public health or safety should be replaced by administrative fees for issuing permits or approvals for such activities or for carrying out necessary municipal inspections. Local communal fees that duplicate administrative fees charged for the same activity should be eliminated. Administrative fees charged for activities not related to the issuance of a permit or document required to ensure public health and safety should be eliminated.

2.2 Maintain clear distinctions among types of municipal own-source revenue instruments

Any future policy, law or implementing regulation regarding local communal fees, local administrative fees, and municipal taxes should make clear distinctions among such revenue instruments.

Municipal taxes can be defined as revenues derived from the broadest categories of organizations, households, and individuals, that are not earmarked for particular expenditures, and that are not tied directly to any particular benefit derived by the taxpayer; that is, they are not imposed in proportion to the use of municipal services, or for the use of municipal property, or for the issuance of a municipal permit or license.

Municipal fees are of two types: local communal fees and municipal administrative fees. As used in Montenegro, local communal fees are imposed mainly on conducting a wide but seemingly arbitrary range of business activities. Municipal administrative fees are fees charged for a municipal permit, license, or inspection, or other municipal administrative service and are typically related to public health and safety such as administrative fees for the issuance of a construction permit or to operate a restaurant. Administrative fees are charged to the beneficiary of the administrative service at the time the service is rendered. Administrative fees are set in amounts that approximate the actual cost to the municipality of issuing the permit or license or making the inspection.

Municipal charges are user charges imposed for the use or consumption of municipal services such as water and wastewater services or parking in a municipal parking lot. They are charged only to the user of those services, generally in proportion to the use of the service. Municipal charges are typically set at levels equal to the marginal or average cost (including the capital cost) of providing the service. However, municipal communal charges often provide for a “lifeline” tariff for the use of up to a specified maximum amount of a municipal service (e.g., liters of water/day) for users of a municipal service who could not afford to pay the full cost of service provision; such “lifeline” tariffs are an exception to the general rule that municipal charges are set in proportion to the use of the service and at levels equal to the marginal or average cost of providing the service. Other exceptions to

¹⁹ The Law on Construction Land, Article 13 does not currently define the placement of moveable improvements on construction land as “development” of that land for which the fee for use of construction land can be imposed. Therefore, implementation of a municipal tax on moveable property placed on construction land would require an amendment to the Law on Construction Land or a separate new law.

this general rule may also include block tariffs set to reduce use of the service during peak hours of demand.

Any future laws and implementing regulations should maintain these clear distinctions among these classes of municipal revenue instruments, should treat each class of revenue instrument consistently, and should regulate each class of revenue instrument under its own law and implementing regulations.

2.3 Eliminate duplications among and within categories of municipal own-source revenue instruments

There should be no duplication of municipal taxes, fees, or charges within each category of revenue instrument or among categories of revenue instrument.

To the extent possible, within each class of revenue instrument described in Section 2.2, above, there should be one and only one revenue instrument applied to a given taxable asset or activity or to a given chargeable administrative or tariffed service. For example, there should be only one administrative fee for issuing permits related to construction of a building (however, there could be several administrative fees for various inspections required during the course of construction of the building, such as fire safety, structural, electrical, or plumbing inspections); there should be only one user charge for the use of water or wastewater services; and there should be only one tax on the value of real estate, immovable improvements to real estate, or movable property. Similarly, an administrative fee should not duplicate a charge for a communal service or a local communal fee or municipal tax.

In order to ensure transparency and political accountability, municipal taxes, fees, and charges authorized by law should be imposed only when the base and rate for the tax, fee, or charge have been explicitly authorized by the municipal assembly in the annual budget review and approval process. Except for municipal revenues that have been assigned to a municipal enterprise (e.g., revenues from municipal charges for water and wastewater services that have been assigned to a municipal water and wastewater enterprise), all revenues from all such municipal revenue instruments should be recorded in the municipal treasury management system and reported periodically as required by law.

To the greatest extent practicable all billing and collection of municipal fees, taxes, and charges should be administered by a consolidated municipal revenue department.

2.4 Maintain “revenue neutrality” for municipalities when changing municipal own-source revenue assignments

Any change in the existing laws or regulations governing municipal revenue instruments should, to the greatest extent possible, be revenue-neutral for municipalities while ensuring that municipal tax-, charge-, and fee-payers are not excessively burdened financially.

This principle is intended to ensure that any changes to existing policies, laws, or regulations regarding municipal own-source revenues will be revenue-neutral in the aggregate and, to the extent possible, for each municipality. That is, each municipality should be authorized to raise the same amount of revenue, in the aggregate, through all of

its assigned revenue instruments, after any such change in law as it is authorized to raise, in the aggregate, through its assigned revenue instruments under existing law before that change.

In this context, “revenue neutrality” does not require that the Government automatically replace municipal revenues from a particular revenue instrument (e.g., local communal fees) that are projected to be lost as a result of a change in the applicable law or regulation with a new revenue assignment to municipalities or with an increase in shared revenues or equalization fund allocations. For example, the principle of “revenue neutrality” would be observed if a municipality could replace revenues projected to be lost as a result of a change to one revenue instrument (e.g., consolidation and rate reductions for local communal fees) with increased revenues from another existing revenue instrument (e.g., higher collection rates for existing municipal taxes or local communal fees). However, a determination of “revenue neutrality” (i.e., a fiscal impact analysis) should be prepared in the normal course of preparing a new or amended law or regulation affecting municipal revenue assignments and should be circulated and discussed among municipalities and other stakeholders well before any such new or amended law is submitted to the Government for consideration.

Any such fiscal impact analysis should analyze the revenue effect not only on municipalities (in the aggregate and individually) of the proposed change in assigned revenue instruments, but also the effect of the change on the financial burden borne by municipal tax-, fee- and charge-payers in the aggregate and on particular classes of municipal tax-, fee- and charge-payers (e.g., owners of private property; private and state-owned utility companies; low-income households; small businesses, etc.). Any conclusion that the proposed change will be “revenue neutral” should be supported by an analysis of how municipalities will make up for any projected lost revenues, such as a realistic estimate of additional revenues that could be derived in a reasonable time period from other existing revenue instruments (e.g., improved real estate tax collection rates) or from non-own source revenues (e.g., the municipal share of the personal income tax or additional equalization grant fund allocations).

Finally, “revenue neutrality” implies that the transition provisions of any new or amended laws and regulations affecting other municipal revenue instruments should ensure that municipalities are authorized to continue to impose and collect all revenue instruments authorized under existing laws and regulations until the date the new law takes effect. A somewhat longer-than-usual transition period after the enactment and publication of any such new or amended law or regulation may be required to give municipalities sufficient time to adjust their existing revenue instruments and adopt any municipal ordinances and procedures required to implement any change to the existing revenue instrument or any newly-authorized revenue instrument.

2.5 Improve municipal administration of taxes, fees, and charges

The administration of municipal taxes, fees, and charges should be efficient, predictable, transparent, and fair.

Laws, regulations, and administrative procedures regarding administration and enforcement of municipal taxes, fees, and charges should be clear and fair to the tax- and fee-payer. For example, they should provide specific, uniform and transparent rules for

enforcement that permit sufficient time for payment after receipt of a bill (e.g., not less than thirty days). Laws and implementing regulations and guidelines should require that municipalities issue bills for all municipal taxes, fees, and charges on a standard billing cycle (e.g., monthly, quarterly, semi-annually, annually) and to send a reminder notice allowing a reasonable additional time period for payment (e.g., 15 days) if the tax- or fee-payer has not paid the original bill in the initial time period provided. Consideration should be given to a law or regulation requiring a tax- or fee-payer to pay a municipal tax, fee, or charge in full on or before the deadline for payment set by the initial bill or any reminder notice or forfeit the right to contest its liability for, or the amount of, the tax, fee, or charge.

To the greatest extent possible, municipalities should be required to centralize and consolidate billing and collection of municipal taxes, fees, and charges in a single municipal department.

Laws and implementing regulations and implementing guidelines should require tax- and fee-payers to provide to municipalities annually information regarding their mailing address and the type and location of their taxable property or other assets in order to preserve the tax- or fee-payer's right to commence court proceedings to contest its liability for, or the amount of, a bill for a municipal tax, fee or charge. Laws and implementing regulations and implementing guidelines should also require tax- and fee-payers to provide proof of payment of municipal taxes, fees, and charges in order to obtain certain permits or approvals from a municipality or other government body, such as a construction permit, licenses or permits to operate certain types of businesses, participate in a public procurement procedure, record sales or other dispositions of real estate in the cadastre, etc.

Finally, laws and implementing regulations should require all municipal taxes, fees, and charges to be adopted annually as part of the municipal budget and should prohibit the billing or collection of any municipal taxes, fees, and charges that have not been adopted in this manner.

Tables

Table 1. Summary of Own-source Municipal Revenues

Fee/Tax	Fee or tax base	Responsible secretariat:	Key base measure	MIN	MAX
Real Estate Tax	Book value, or	1. Sec for Finance or	Building area	0.08%	0.80%
	Average market price	2. Real Estate Department		0.08%	0.80%
Company Title Tax	Building area	1. Sec for Finance or 2. Sec for General Affairs	Building area		300 Eur
Tax on Vacant Construction Land		1. Sec for Urban Planning and Municipal Services, or 2. Sec for Finance, or 3. Sec for General Affairs, or 4. Sec for Housing and Municipal Services	Building area	0.03 Eur/m2	0.3Eur/m2
Beverage Tax	Selling price of drinks in cafes and restaurants (catering facilities) that does not include the VAT and the beverage tax.	1. Sec for Finance		3%	5%- only in Cetinje and Podgorica
Fees for City Construction Land	Fee for improvement of construction land	1. Sec for Urban Planning and Municipal Services or 2. Sec for Finance or 3. Sec for General Affairs or 4. Sec for Housing and Municipal Services	Building area/level of improved construction land, improvement program for construction land		
	Fee for using city construction Land		Building area/level of improved construction land, improvement program for construction land		
Local Communal Fees	usage of a space within the public area or in front of the business facilities for the business related purpose, except for selling the printed material, books and other publications;	1. Sec for Urban Planning and Municipal Services or 2. Sec for Finance	Building area		
	holding lottery and entertainment games equipment (billiard, bingo etc.);		Building area		
	hosting the musical events within the tourist facilities;		By type of music event		
	usage of the glass showcase for presenting the goods outside of the business facilities;		Area/ m2		
	usage of the advertising posters;		Area/m2		
	usage of space for parking the motor vehicles and the additional vehicles on the arranged and marked area that are assigned for that purpose by the Municipality Assembly;		Building area		
	usage of the empty areas for camping, putting a tent or other ways of temporary usage;		Building area/m2		
	keeping and usage of the sailing facilities and equipment on the water;		by sailing, by length		
	keeping and usage of boats and floats on the water, except the boats that are used by the State and the local self management institutions as well as organizations that are responsible for maintaining and marking the sailing pathway;		by sailing/ by length/ by m2		
	having the restaurants and other customer services and entertainment facilities on the water;		by length/ by m2/ sea or lake/ by tons		
	usage of the Seaside for business related purposes;		by length/ by m2		
	having motor vehicles and additional vehicles, except agricultural vehicles and machines, and		by m3/ by number of passengers		
Local Administrative Fees	Submissions	1. Sec for General Affairs or 2. Sec for Finance 3. Sec for Communal Affairs 4. Sec for Urban Planning and Municipal Services 5. Sec for Transportation 6. Sec for Entrepreneurship	By type		
	Decisions		By type		
	Certificates		By type		
	Verifications and transcripts		By type		
	Entrepreneurship fees		By type		
	Fees for civil engineering		By type		
	Fees for communal activities		By type		
	Fees for agriculture and water management		By type		
	Fees for catering services		By type		
	Fees for transportation		By type		
Fees for Communal Services	Fees for property ownership affairs	Public Communal Enterprises	By type		
	Other fees		By type		
	Water supplying		m3		
	Waste waters refining and diverting		30% up to 50% of water price		
	Providing for heating		m3- only in pljevlja		
	Public transportation of the passengers system, in town and other settlements		budget-only in podgorica		
	Sanitation department, in town and other settlements		bym2		
	Arrangements and maintenance of parks, public green and recreational areas,		Budget		
	Maintenance of streets, communications trenches and other public areas in towns and other settlements, public lighting, as well as the construction, maintenance and utilization of local roads,		Budget		
	Construction, maintenance and utilization of the waste deposits,		by t -only in Tivat and Kotor		
	Construction, maintenance and utilization of bridges, public premises and management and maintenance of riverbeds,		Budget		
	Maintenance of cemeteries and funeral services,		Budget and persons		
	Chimney sweep services, public toilets maintenance, public bathrooms maintenance, dog pounds maintenance, public parking lots maintenance, green markets maintenance and service provision on them,				
	- public parking lots maintenance		by time		
	-green markets maintenance and service provision on them		by product amount		
Tourism Fees	Occupancy tax designated for tourism promotion	1. Local Tourist Organization	Room	0.10 eur	0.8 eur

Table 2. Examples of duplicative municipal administrative and local communal fees

Administrative Fees for Construction Activities	Communal Fees for Construction Activities
For business facilities	Use of space in public areas in front of business facilities for business purposes, except for sale of papers, books, and other publications - from each m2 being used either whole or in part
For extension and superstructure of individual residential structure	For use of space in public and other areas for the purpose of conducting construction works
- popcorn machine, ice-cream container, soft-ice machine and refrigerating plant	For occupying space in front of business premises, in squares and green markets, with the exception of agricultural land, for setting up show cases for the purpose of displaying and selling goods, for setting up soft-ice machines, pop corn machines, machines for making donuts and pancakes, etc.
- stands, display panels, kiosks and prefabricated structures with surface area up to 10 m2 and sun blinds in front of permanent structures with surface area up to 10 m2	Stands, ice-cream containers, popcorn machines, refrigerating plants, etc. per structure
- terraces in front of catering facilities, sun blinds in front of permanent structures with surface area over 10m2, prefabricated structures with surface area over 10m2, warehouses for construction materials, and car washes	Use of space for putting tables in public areas or in front of business premises and in terraces in front of catering facilities from each m2 being used either whole or in part and on a monthly basis
- for terraces in front of catering facilities	Use of space in public areas in front of business premises for business purposes and in terraces of catering facilities from each occupied m2 monthly
for a document that permits a location to be used for setting up a temporary structure	Use of space in public areas in front of business premises for business purposes, except for selling newspapers and magazines, books, and other publications - from each m2 being used whole or in part, the fee is calculated on a monthly basis by business zones
for a document that permits utilization of the temporary business facility	For use of space in public areas for the purpose of setting up movable structures (theme parks, carousels, soft-ice machines, stall for selling goods, pop corn machines, etc.), monthly per m2 for the territory covered by the detailed town plan.

Administrative Fees for Transportation	Communal Fees for transportation
For decisions which permit excavating public areas intended for transportation, vehicles and pedestrians (streets, road surface, sidewalks, paths, walking zones, squares, etc)	For use of space in public and other areas for the purpose of carrying out construction works, excavations, depots of construction and other materials, m2 of occupied spaced is paid on a daily basis
For decisions which permit the installment of communal structures (flower-stands, protective and decorative posts, protective fences and gates) along the streets, in public parking plots, garages, taxi stands, and bus stops	For use of space in public areas or in front of business facilities (sun blinds, sidewalks, etc) monthly fee is paid buy zones

Table 3. Case study – municipal administrative and local communal fees and municipal taxes and charges for a restaurant and catering business – private person or legal entity

ADMINISTRATIVE FEES – PRIVATE PERSON – restaurant and catering Business		
Minimum Requirements	Additional Requirements	Optional Requirements
Entrepreneurship Fees	Entrepreneurship Fees	Entrepreneurship Fees
* for documents that approve performance of individual activity or change of activity		
		for documents on temporary termination of activity
		* for documents on termination of activity
for documents on canceling registration of activity		
	* for documents that approve change of business premises for performance of individual activity already approved	
	* for performance of additional business and non-business activities	
* for documents on performing business activities outside business premises		
for document that approves carrying out transport for own needs		
* for issued document that proves that a person is performing trade in own agricultural products		
* for issued document that approves extended work hours		
* for extended work		
* for using annual leave		
		* for change of document
	* for change of document on fulfillment of requirements for performing activity	

Fees for Civil Engineering	Fees for Civil Engineering	Fees for Civil Engineering
-terraces in front of catering facilities, sun blinds in front of permanent structures with surface area over 10m2, prefabricated structures with surface area over 10m2, warehouses for construction materials, and car washes		
-for terraces in front of catering facilities		
	for repair and reconstruction of a structure	
	for a professional on-site visit to inspect the location	
		* for a professional on-site visit upon request
	for request to measure the usable surface area of a structure	
	for a document that approves adaptation of a structure	
- Fees for Communal Activities	- Fees for Communal Activities	- Fees for Communal Activities
* for a document that approves installing or replacing a company title		
* for a document that approves location for summer terraces and placement of tables on public spaces		
* for a document that approves installing a sun blind		
	for a document that approves installing or replacing of wiring and devices for lighting of certain buildings or structures	
for a document that approves booking a place on the parking lot and other public spaces		
* for signing contract on utilization of public space		

Fees for Agriculture and Water Management	Fees for Agriculture and Water Management	Fees for Agriculture and Water Management
		for a document that approves trade in own agricultural products
Fees for catering services	Fees for catering services	Fees for catering services
for a document that approves performance and use of live music in catering and public facilities		
for a document that categorizes restaurants		
Fees for transportation	Fees for transportation	Fees for transportation
		for a document on location and engineering specifications to build a parking lot
		for a document on defining temporary parking lots
Other fees	Other fees	Other fees
* for a document that approves performing transport for own purposes		
* for providing town-planning consent from the point of view of environment protection		
* for a notice inviting some person to pay the fee charged		

C O M M U N A L F E E S – PRIVATE PERSON – restaurant and catering business			
Types of communal fees	Minimum Requirements	Additional Requirements	Optional Requirements
Use of Public space in front of business premises for business purposes, except for the sale of newspapers, books and other publications	*For summer, closed and separate terraces adjacent to a catering facility (3.5-22 EUR)		For the use of public and other space for construction work, digging, dumps of construction and other materials, paid daily per m2 of area occupied (0.1-0.6 EUR)
Operating games of chances and amusement games machines and devices (billiard, bingo and similar)			
Organizing music program in catering facilities			Organizing music shows in catering facilities and terraces, i.e. live music monthly (150 EUR)
Use of windows and showcases for display of goods outside business premises			
Use of advertisement notice boards and billboards			Use of advertisement panels, fee paid monthly, for each billboard, as follows (150-250 EUR)
			Billboards, light adds, signs on walls, electronic ads and advertisement panels of foreign companies, per sheet, annually (100-400 EUR)
Use of space for parking road motor and trailer/attached vehicles in arranged and marked places allocated for this purpose by the Municipal Assembly			
Use of free areas for camps, placing tents or other forms of temporary use			
Keeping and usage of waterway facilities and business premises on the water			
Keeping and using boats and rafts on the water, except for boats used by state bodies and local government bodies and organizations that maintain and marked water routs			

Keeping restaurants and other catering and entertainment facilities on the water			
Use of coast for business purposes			
Keeping motor road and trailer/attached vehicles, except agricultural vehicles and machines			Use of space for parking road motor and trailer/attached vehicles in arranged and marked places allocated for this purpose by the Municipal Assembly, for each hour of use started, per vehicle, for passenger cars (0.1-2.5 EUR)
Keeping house pets			

Local Taxes and charges	Private person - catering business
Beverage Tax	YES
Tax on company title	YES
Real Estate Tax	YES
Fees for use of city constructions land	YES
Fees for city construction and land development	NO

ADMINISTRATIVE FEES - LEGAL ENTITY - Construction of a building – residential business facilities		
Minimum Requirements	Additional Requirements	Optional Requirements
Entrepreneurship Fees	Entrepreneurship Fees	Entrepreneurship Fees
		for documents on temporary termination of activity
		* for documents on termination of activity
* for documents on canceling registration of activity		
* for documents on performing business activities outside business premises		

* for issuance of document on stating business premises' fulfillment of requirements concerning level of technical equipment, safety at work place, and other prescribed requirements		
* for document that approves carrying out transport for own needs		
* for issued document that approves extended work hours		
		* for change of document on fulfillment of requirements for performing activity
Fees for Civil Engineering	Fees for Civil Engineering	Fees for Civil Engineering
* for a document that approves the location of a structure and the town-planning and engineering specifications		
	for residential and ancillary structures	
* for residential - business facilities		
	-terraces in front of catering facilities, sun blinds in front of permanent structures with surface area over 10m2, prefabricated structures with surface area over 10m2, warehouses for construction materials, and car washes	
* for residential and residential-business facilities		
* for extension and superstructure of residential-business facility		
	* for construction of garage and ancillary structure	
	* for a document which permits extension of use of location for business facilities	
	* for additional engineering documents	
* for issuance of town-planning approval		
* for issuance of a decision-approval for the investment- engineering documents and structure construction		
		* for a document that modifies the detailed town plan

* for a professional on-site visit to inspect the location		
	* for a professional on-site visit upon request	
* for a document that approves utilization of the structure built or the works performed, in the amount		
* for request to measure the usable surface area of a structure		
		* for a document that approves reconstruction, extension and superstructure of a construction structure
* for installation of structure and issuance of regulation protocol		
* for issuance of town-planning specifications		
* for a document that states that conditions are met to issue approval for legalizing construction structures		
* for technical check-up and issuance of a document that approves utilization of the structure constructed or the works performed		
* for technical check-up of temporary structure and issuance of a document that approves utilization of the structure constructed or the works performed		
* for issuance of additional approval to construct a structure according to modified or completed documentation		
* for issuance of town-planning record excerpt (per four pages of A4 format)		
* for issuance of planning record excerpt		
* for a document that approves construction of a structure		
* for issuance of a record on performed control of the foundations of a structure approved by means of a permit and compliance to build the foundation		
* for issuance of a record on the compliance of the foundations built with the main project		

		* for a document that defines felling and removal of trees from a construction plot
* for a statement on starting construction work		
* for a document providing additional construction permit according to modified project		
* for inspection of a location for structure construction, for issuance of transportation consent:		
* for business-residential facility		
* for a document on the location to build a fence		
* for structure measurement		
* for a request to determine structure quality		
* for a document to establish a commission for technical inspection of a structure		
* for issuance of town-planning and engineering specifications and other information related to the location in the procedure to issue documents on the location that falls under the competence of a Republic administrative body		
* technical check-up of mechanical, electrical, electrical-mechanical, radio and postal devices and other apparatuses that are, according to domestic regulations, subject to compulsory inspection by municipal bodies for the purpose of obtaining approval to be used at the practical presentation		
* for a document on determining control or construction line: for an individual or for several persons		
		* for renewal of control area
* for a document that approves performing preliminary or preparatory works		
* for approval to build and perform works as well as business facilities		
* for a document on creating a town-plan plot		
* for documents defining the location for waste dump		

- Fees for Communal Activities	- Fees for Communal Activities	- Fees for Communal Activities
* for a document that approves performing works on public spaces		
* for a document that approves installing or replacing a company title		
* for a document that approves installing of a fence		
	* for a document that approves excavation of streets, sidewalks and other public spaces	
* for a document that approves installing or replacing of wiring and devices for lighting of certain buildings or structures		
		* for a document that approves extended use of a location for temporary structures
* for a document that approves utilization of structures and wiring, of public lighting system		
* for a document that approves booking a place on the parking lot and other public spaces		
	* for signing contract on utilization of public space	
Fees for transportation	Fees for transportation	Fees for transportation
* for a document on location and engineering specifications to build a parking lot		
* for issuance of record on regular technical condition		
Other fees	Other fees	Other fees
* for providing town-planning consent from the point of view of environment protection		
* for a notice inviting some person to pay the fee charged		

C O M M U N A L F E E S - LEGAL ENTITY - Construction of a building – residential and business facilities			
Types of communal fees	Minimum Requirements	Additional Requirements	Optional Requirements
Use of Public space in front of business premises for business purposes, except for the sale of newspapers, books and other publications	For the use of public and other space for construction work, digging, dumps of construction and other materials, paid daily per m2 of area occupied (0.1-0.6 EUR)		
Operating games of chances and amusement games machines and devices (billiard, bingo and similar)			
Organizing music program in catering facilities			
Use of windows and showcases for display of goods outside business premises			
Use of advertisement notice boards and billboards			
Use of space for parking road motor and trailer/attached vehicles in arranged and marked places allocated for this purpose by the Municipal Assembly			
Use of free areas for camps, placing tents or other forms of temporary use			
Keeping and usage of waterway facilities and business premises on the water			
Keeping and using boats and rafts on the water, except for boats used by state bodies and local government bodies and organizations that maintain and marked water routs			
Keeping restaurants and other catering and entertainment facilities on the water			
Use of coast for business purposes			
Keeping motor road and trailer/attached vehicles, except agricultural vehicles and machines			
Keeping house pets			

Municipal taxes and charges	Legal entity - construction of building
Beverage Tax	NO
Tax on company title	YES
Real Estate Tax	YES
Fees for use of city construction land	YES
Fee for city construction and land development	YES

Table 4. Municipal taxes and fees reportedly paid by Telekom, 2004-2005

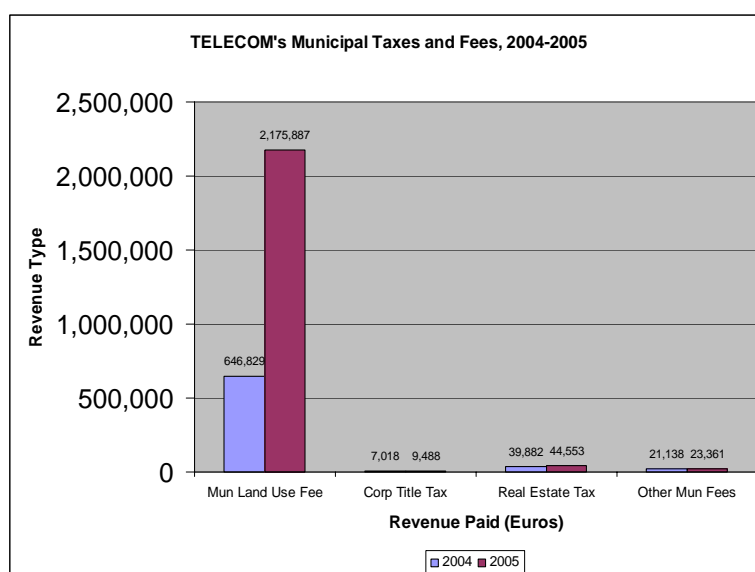


Table 5. Summary of municipal charges and taxes levied against Telekom, 2004 – 2005

	Municipality	Use of public land fee		Firm taxes		Property taxes		Municipality fees		Total	
		2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
1	Cetinje	5,769	76,510				1,134	127	284	5,895	77,928
2	Kolašin	32,200	115,760	300	300	1,393	1,192	1,322	504	35,215	117,755
3	Andrijevica		5,400		200	407	407	338	254	745	6,261
4	Ulcinj		201,770	300		987		3,542	329	4,829	202,100
5	Bar	4,800	24,720	890	900	2,043	2,714	1,396	1,164	9,129	29,497
6	Bijelo Polje	187,055	135,664	900				2,730	1,358	190,685	137,022
7	Pljevlja	71,152	289,455	300	600	648	874	456	444	72,556	291,373
8	Rožaje	15,600	112,740		300	1,154	631	300		17,054	113,671
9	Šavnik	7,379	58,800		900	138	133			7,517	59,833
10	Berane	17,550	17,550			1,821		2,069	1,640	21,441	19,190
11	Danilovgrad			200	200	338	322	461	205	998	727
12	Plav	70,440	59,220		220			1,299	61	71,739	59,501
13	Podgorica		276,216	680	2,610	14,922	16,122	211	8,723	15,813	303,670
14	Herceg Novi			240	240		1,716	409	643	649	2,599
15	Mojkovac		5,440	300			170	71	3,317	371	8,928
16	Plužine			340	220	202	179	860	573	1,401	972
17	Kotor		1,840				2,047	1,351	952	1,351	4,839
18	Budva	224,485	767,962		300	13,290	12,838	301	225	238,075	781,326
19	Tivat		16,440	600	710		948	1,985	1,234	2,585	19,333
20	Nikšić			1,668	1,488	2,540	3,126	1,740	1,450	5,948	6,064
21	Žabljak	10,400	10,400	300	300			171		10,871	10,700
Total		646,829	2,175,887	7,018	9,488	39,882	44,553	21,138	23,361	714,867	2,253,288

Table 6. Duplicative and separately-administered municipal taxes, fees, and charges based on land or building area

At least eight different municipal taxes, fees, and charges are based on land or building area. Two such taxes, fees, and charges are currently not being implemented: the tax on vacant construction land and the tax on agricultural land.

